



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
MONTGOMERY COUNTY
SHERIFF'S SETTLEMENT - 1998 TAXES**

July 7, 1999

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Edward B. Hatchett, Jr.
Auditor of Public Accounts

To the People of Kentucky

Honorable Paul E. Patton, Governor
John P. McCarty, Secretary
Finance and Administration Cabinet
Mike Haydon, Secretary, Revenue Cabinet
Honorable B. D. Wilson, County Judge/Executive
Honorable Fred Shortridge, Montgomery County Sheriff
Members of the Montgomery County Fiscal Court

Independent Auditor's Report

We have audited the Montgomery County Sheriff's Settlement - 1998 Taxes as of July 7, 1999. This tax settlement is the responsibility of the Montgomery County Sheriff. Our responsibility is to express an opinion on the financial statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards issued by the Comptroller General of the United States and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Sheriff prepares his financial statement on a prescribed basis of accounting that demonstrates compliance with the cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Montgomery County Sheriff's taxes charged, credited, and paid as of July 7, 1999, in conformity with the basis of accounting described in the preceding paragraph.

Based on the results of our audit, we have presented a comment and recommendation, included herein, which discusses the following area of noncompliance.

- The Sheriff Should Have A Written Agreement To Protect Deposits.

To the People of Kentucky
Honorable Paul E. Patton, Governor
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Members of the Montgomery County Fiscal Court

In accordance with Government Auditing Standards, we have also issued a report dated September 21, 1999, on our consideration of the Sheriff's compliance with certain laws and regulations and internal control over financial reporting.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
September 21, 1999

MONTGOMERY COUNTY
FRED SHORTRIDGE, SHERIFF
SHERIFF'S SETTLEMENT - 1998 TAXES

July 7, 1999

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Transferred from Outgoing Sheriff	\$ 85,050	\$ 154,940	\$ 395,239	\$ 165,250
Franchise Corporation	7,043	13,668	32,575	
Additional Billings	52	104	240	94
Increased Through Erroneous Assessments	20	41	96	37
Penalties	3,999	7,251	18,589	7,780
Gross Chargeable to Sheriff	<u>\$ 96,164</u>	<u>\$ 176,004</u>	<u>\$ 446,739</u>	<u>\$ 173,161</u>
<u>Credits</u>				
Discounts	\$ 10	\$ 20	\$ 47	\$ 38
Exonerations	437	1,451	2,027	709
Delinquents:				
Real Estate	13,354	26,867	62,318	24,323
Tangible Personal Property	284	2,006	4,752	2,103
Intangible Personal Property				49
Total Credits	<u>\$ 14,085</u>	<u>\$ 30,344</u>	<u>\$ 69,144</u>	<u>\$ 27,222</u>
Net Tax Yield	\$ 82,079	\$ 145,660	\$ 377,595	\$ 145,939
Less: Commissions *	<u>3,489</u>	<u>4,580</u>	<u>15,104</u>	<u>6,202</u>
Net Taxes Due	\$ 78,590	\$ 141,080	\$ 362,491	\$ 139,737
Taxes Paid	77,415	143,049	360,998	137,665
Refunds (Current and Prior Year)	<u>178</u>	<u>208</u>	<u>893</u>	<u>655</u>
Due Districts or (Refund Due Sheriff) as of Completion of Fieldwork	<u>\$ 997</u>	<u>** \$ (2,177)</u>	<u>\$ 600</u>	<u>\$ 1,417</u>

* and ** See Page 4

MONTGOMERY COUNTY
FRED SHORTRIDGE, SHERIFF
SHERIFF'S SETTLEMENT - 1998 TAXES
July 7, 1999
(Continued)

4.25% on	\$	305,647
4% on	\$	397,626
1% on	\$	48,000

** Special Taxing Districts:

Library District	\$	(86)
Health District		(103)
Extension District		(66)
Ambulance District		(6)
Fire District		<u>(1,916)</u>

(Refunds Due Sheriff)	\$	<u><u>(2,177)</u></u>
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The accompanying notes are an integral part of the financial statement.

MONTGOMERY COUNTY
NOTES TO FINANCIAL STATEMENT

July 7, 1999

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintains deposits with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to law, the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The depository institution has made such a pledge, and the depository institution's board of directors or loan committee approved the pledge. However, the depository institution did not have a written agreement with the Sheriff.

MONTGOMERY COUNTY
NOTES TO FINANCIAL STATEMENT
July 7, 1999
(Continued)

Note 3. Property Taxes

The real and personal property tax assessments were levied as of January 1, 1998. Property taxes were billed to finance governmental services for the year ended June 30, 1999. Liens are effective when the tax bills become delinquent. The collection period for these assessments was January 11, 1999 through April 26, 1999.

Note 4. Interest Income

The Montgomery County Sheriff earned \$1,133 as interest income on 1998 taxes. The Sheriff plans to distribute \$549 to the school district as required by statute, and the remainder should be used to operate the Sheriff's office.

Note 5. Unrefundable Duplicate Payments and Unexplained Receipts Should Be Escrowed

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest bearing account. According to KRS 193.110, the Sheriff should properly report annually to the Treasury Department any unclaimed monies. After seven years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer. For the 1998 taxes, the Sheriff had \$449 in unrefundable duplicate payments and unexplained receipts. Therefore, the Sheriff should deposit \$449 to an interest bearing account and send a written report to the Treasury Department.

COMMENT AND RECOMMENDATION

MONTGOMERY COUNTY
FRED SHORTRIDGE, SHERIFF
COMMENT AND RECOMMENDATION

July 7, 1999

STATE LAWS AND REGULATIONS:

The Sheriff Should Have A Written Agreement To Protect Deposits

The Sheriff maintained deposits with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). The Sheriff had a bank balance of \$413,924; FDIC insurance of \$100,000; and collateral pledged of \$345,000 as of February 11, 1999. Even though the Sheriff obtained collateral of \$345,000, the collateral was not evidenced by a written agreement. We recommend the Sheriff enter into a written agreement with the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Management's Response:

Agreement was discussed by Sheriff and bank president and was accepted. No written documentation was obtained, but it will be done in future and kept on file as required.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Honorable B. D. Wilson, County Judge/Executive
Honorable Fred Shortridge, Montgomery County Sheriff
Members of the Montgomery County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Montgomery County Sheriff's Settlement - 1998 Taxes as of July 7, 1999, and have issued our report thereon dated September 21, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Montgomery County Sheriff's Settlement - 1998 Taxes as of July 7, 1999 is free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Montgomery County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Honorable B. D. Wilson, County Judge/Executive
Honorable Fred Shortridge, Montgomery County Sheriff
Members of the Montgomery County Fiscal Court
Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended for the information of management. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Respectfully submitted,

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Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
September 21, 1999

